

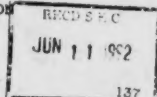


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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549



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Form 10-Q

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ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended April 30, 1992

1-10468

(Commission File Number)

ELECTRONIC TECHNOLOGY GROUP, INC.
(Exact name of registrant as specified in its charter)

315 North Main Street, Suite 200, Jamestown, New York 14701
(Address of registrant's principal executive office)

716-488-9699

(Registrant's telephone number)

Delaware
(State of Incorporation)

16-1297591
(IRS Employer
Identification Number)

The registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and has been subject to such filing requirements for the past 90 days.

The number of shares of common stock outstanding as of June 10, 1992 was 6,472,621.

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ELECTRONIC TECHNOLOGY GROUP, INC.

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I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ELECTRONIC TECHNOLOGY GROUP, INC. CONSOLIDATED BALANCE SHEET

	April 30, 1992 (Unaudited)	July 31, 1991
ASSETS		
Current:		
Cash and cash equivalents	\$ 245,261	\$ 55,340
Accounts receivables, net	2,661,013	2,220,236
Inventories:		
Raw materials	1,720,298	1,676,378
Work in process	<u>833,030</u>	<u>673,268</u>
Total Inventories	2,553,328	2,349,646
Refundable income taxes	166,247	623,213
Due from officer/shareholder	55,777	51,012
Prepaid expenses	<u>263,159</u>	<u>211,486</u>
Total current assets	5,944,785	5,510,933
Property, plant and equipment at cost	5,642,171	5,284,601
Less accumulated depreciation	<u>(1,048,133)</u>	<u>(620,140)</u>
Net property, plant and equipment	4,594,038	4,664,461
Goodwill	2,217,472	2,305,366
Intangible assets	521,628	594,795
Other assets	358,866	393,951
Notes receivables	<u>100,000</u>	<u>100,000</u>
Total assets	\$ <u>13,736,789</u>	\$ <u>13,569,506</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current:		
Notes payable	\$ 1,015,763	\$ 1,202,000
Accounts payable	1,960,099	2,687,166
Accrued expenses	658,718	578,003
Accrued income taxes	27,020	-0-
Customer deposits	8,550	-0-
Current portion of long-term debt	<u>1,029,740</u>	<u>1,475,467</u>
Total current liabilities	4,699,890	5,942,636
Long term debt	3,936,843	4,549,460
Deferred income taxes	52,898	36,898
Shareholders' Equity:		
Common Stock	29,527	12,952
Paid-in-capital	7,152,412	4,007,958
Retained earnings (deficit)	<u>(2,134,781)</u>	<u>(980,398)</u>
Total shareholders' equity	<u>5,047,158</u>	<u>3,040,512</u>
Total liabilities and shareholders' equity	\$ <u>13,736,789</u>	\$ <u>13,569,506</u>

See accompanying notes.

ELECTRONIC TECHNOLOGY GROUP, INC.
CONDENSED STATEMENT OF CONSOLIDATED OPERATIONS

(Unaudited)

	<u>Quarter Ended</u>		<u>Nine Months Ended</u>	
	<u>April 30,</u> <u>1992</u>	<u>April 30,</u> <u>1991</u>	<u>April 30,</u> <u>1992</u>	<u>April 30,</u> <u>1991</u>
Net Sales	\$ 4,152,187	\$ 4,038,993	\$12,059,195	\$12,323,066
Cost of Sales	<u>3,194,092</u>	<u>3,487,982</u>	<u>10,387,938</u>	<u>9,902,730</u>
Gross Profit	958,095	551,011	1,671,257	2,420,336
Selling, General and Administrative	<u>804,654</u>	<u>716,838</u>	<u>2,270,614</u>	<u>2,251,551</u>
Income (Loss) from Operations	153,441	(165,827)	(599,357)	168,785
Other Income (Expense):				
Interest Expense	(182,062)	(213,015)	(594,876)	(564,951)
Interest Income	1,059	235	10,213	19,564
Miscellaneous	<u>541</u>	<u>(15,691)</u>	<u>2,995</u>	<u>(18,097)</u>
	<u>(180,462)</u>	<u>(228,471)</u>	<u>(581,668)</u>	<u>(563,484)</u>
Net Income (Loss) Before Taxes	(27,021)	(394,298)	(1,181,025)	(394,699)
Provision (Benefit) for Income Taxes	(--)	(48,861)	<u>1,225</u>	<u>5,139</u>
Net Income (Loss)	\$ (27,021)	\$ (345,437)	\$ (1,182,250)	\$ (399,838)
Net Income (Loss) per Common Share \$	<u>(.00)</u>	<u>(.16)</u>	<u>(.23)</u>	<u>(.19)</u>
Weighted Average Number of Common Shares Outstanding	<u>5,411,667</u>	<u>2,110,277</u>	<u>5,125,012</u>	<u>2,110,277</u>

The results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature.

See accompanying notes.

ELECTRONIC TECHNOLOGY GROUP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	4/30/92	4/30/91
Cash flows from operating activities:		
Cash received from customers	\$ 11,621,413	\$ 11,584,295
Cash paid to suppliers and employees	(12,433,574)	(11,323,399)
Interest paid	(594,876)	(564,951)
Interest income	10,213	19,564
Income taxes paid	-0-	(383,486)
Net cash provided by (used in) operating activities	(1,396,824)	(667,977)
Cash flows from investing activities:		
Payment for purchase of subsidiary	-0-	(1,124,195)
Capital expenditures	(357,570)	(1,405,722)
Payment of stock offering costs	-0-	(77,859)
Net cash used in investing activities	(357,570)	(2,607,776)
Cash flows from financing activities:		
Net proceeds from stock offering	3,188,896	-0-
Net borrowings (payments) per line of credit	(186,237)	330,000
Proceeds from loans from officers/shareholders	-0-	49,714
Proceeds from long-term debt	-0-	1,711,786
Principal payments on loans from related parties	-0-	15,000
Principal payments on long term debt	(1,058,344)	(441,858)
Deposits	-0-	23,333
Net cash provided by financing activities	1,944,315	1,687,975
Net increase (decrease) in cash	189,921	(1,587,778)
Cash and cash equivalents at beginning of period	55,340	1,598,419
Cash and cash equivalents at end of period	\$ 245,261	\$ 10,641
Reconciliation of net income to cash flows from operating activities:		
Net income (loss)	\$(1,182,250)	\$(399,838)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	589,054	402,457
Loss on sale of assets	-0-	27,530
Deferred income taxes	16,000	24,000
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(440,777)	(738,861)
Decrease (increase) in inventories	(203,682)	(311,779)
Decrease (increase) in prepaid expense and other	435,613	(367,749)
Increase (decrease) in accounts payable	(727,067)	844,768
Increase (decrease) in accrued liabilities	80,715	(108,615)
Increase (decrease) in accrued income taxes	27,020	(93,815)
Increase (decrease) in customer deposits	8,550	53,925
Total adjustments	(214,574)	268,139
Net cash provided by (used in) operating activities	\$(1,396,824)	\$(667,977)

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. In August, 1990, ACT II Printed Circuits, Inc., located in Tempe, Arizona, was acquired by the Company.
2. On October 17, 1991, the Company consummated a secondary public offering of its equity securities, consisting of 3,000,000 units. Each unit was comprised of one share of Common Stock and one Common Stock purchase warrant. The issuance of the capital stock has been reflected in the computation of earnings per share as presented in the Statement of Operations, as well as the receipt of cash proceeds from the underwriter, net of the underwriter's commission reflected in the Statement of Cash Flows.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Net sales of \$4,152,187 for the quarter ended April 30, 1992 were an increase of 3% over the sales of \$4,038,993 for the comparable period in 1991. Sales for the first nine months of the fiscal year, ending April 30, 1992, were \$12,059,195, a decrease of approximately 2% over the comparable nine month period in the prior year. Management believes that the overall decrease has been caused by the general downturn in the economy, which adversely affected the market for the Company's products and services during the prior fiscal year and into the immediately preceding reporting quarters of the current year. The sales reflected for the current quarter represent the largest sales volume in the Company's history. Sales have increased at the Liberty Engineering, Inc. (LEI) facility by 90% for the quarter and 85% for the nine month period, when compared with the comparable periods in the prior fiscal year. While sales have not changed during the current reporting periods at Act II Printed Circuits, Inc. (Act II), sales at EJE Research Corp. (EJE) reflected a 7% increase for the quarter compared to the same reporting period last year. EJE has experienced a significant increase of sales orders from both new and existing customers which will result in an increase of revenues during the fourth quarter and into the next fiscal year. Concurrently with the upswing at EJE, a major customer has rescheduled current orders at Act II which may negatively impact sales during the fourth quarter. Consequently, management believes that the revenues for the current fiscal year will approximate sales for the preceding year, followed by sales increases during the first quarter of the next fiscal year.

Cost of production, as a percentage of sales was 77% for the fiscal quarter ended April 30, 1992, as compared with 86% for the comparable period in the prior year, and approximately 86% and 80% for the nine month fiscal periods ended April 30, 1992 and 1991 respectively. The favorable decrease during the current quarter is primarily the result of both the ongoing improvements in the production efficiencies at Act II and the fuller absorption of the fixed overhead costs in the increasing revenue base at EJE. An 8% improvement in efficiency, as a percentage of sales was experienced between the second and third quarter of the current fiscal year, and management anticipates that current cost efficiencies, as a percentage of sales, will continue through the remainder of the fiscal year.

Selling, general and administrative expenses, as a percentage of sales, were approximately 19% for the fiscal quarter ended April 30, 1992, as compared with approximately 18% for the comparable quarter ended April 30, 1991, and approximately 19% for the nine months ended April 30, 1992 contrasted with 18% for the comparable period ended April 30, 1991. The fiscal year 1992 increases are attributable, in

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

part, to an increase in commissionable sales, as well as increased amortization of goodwill during the current reporting periods. Management believes that many excess overhead expenses have been eliminated and each subsidiary location's SG&A contribution is highly efficient. As sales increase, during the remainder of the fiscal year, the fixed overhead expenses will be further absorbed and these expenses, as a percentage of sales, should decrease.

Interest expense during the quarter ended April 30, 1992 was \$182,062, approximately 4% of sales, as compared to \$213,015, or 5% of sales, for the quarter ending April 30, 1991. For the nine months ended April 30, 1992, the interest expense was \$594,876, or 5% of sales, compared with \$564,951, or 5% of sales for the nine months ended April 30, 1991. Although interest expense continues to decrease at the EJE and LEI facilities, due to the decline in the principal and variable interest rates, the fixed rate cost of financing the Act II acquisition and expansion will continue to keep interest expense at an approximate 5% of sales for the remainder of the fiscal year. Should Management be successful in securing a new Corporate financing package, a significant savings could be realized.

Interest income, reflected during the current and comparable reporting periods, is a result of temporary short-term investments in bank certificates of deposit and commercial paper. The funds for these investments, during the current fiscal year, were substantially derived from the proceeds of the Company's secondary public offering, and during the periods in the prior fiscal year, from the Company's initial public offering. As the proceeds have now been utilized, interest income during the remainder of the current fiscal year will be insignificant.

The net loss for the second quarter ended April 30, 1992 was \$27,021, or \$.00 per share, contrasted with a loss of \$345,437, or \$.16 per share, for the quarter ended April 30, 1991. For the nine months ended April 30, 1992, the net loss was \$1,182,250, or \$.23 per share, compared with a loss of \$399,838, or \$.19 per share, for the prior year nine month period. The number of outstanding shares of common stock, utilized in the computation of earnings per share, increased during the fiscal 1992 reporting periods, as a consequence of the issuance of additional shares in the Company's secondary public offering.

Management believes that the results of the current reporting period are reflective of the appropriate actions taken to improve the production efficiencies at each of the production facilities, as well as some improvement in business conditions in the northeastern United States, where a significant number of the Company's customers are located. During the current operating quarter, the Company has experienced its first profit from operations in four quarters.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

Vital in the Company's apparent turnaround has been the realization of the success of many of the changes made and the installation of the new manufacturing system at the Act II facility. Along with management changes at Act II, the enhanced efficiencies of the production personnel has resulted in an overall improvement in Quality Control and has enabled Act II to deliver product to its customers in a timely manner and has resulted in lower production costs. While sales continue to be slow at Act II, as a result of rescheduling of existing orders by a major customer, the quoting activity has dramatically increased as a result of the efforts of new sales representatives that are experienced in sales of printed circuit boards.

LIQUIDITY AND CAPITAL RESOURCES

Operating results at the Act II facility continue to impact the cash flow of the Company. However, the procedures established, particularly in the areas of education and training of the production personnel, have begun to have a measurable effect in improvement of the quality of the manufactured product as well as a decrease in the costs of production. Management believes that these improvements resulted in not only an operating profit, but in the significant increase in the gross margin to 22 % as compared to 10% during the previous reporting quarter.

One direct cause of the cash flow pressures at Act II was the expenses related to the fire during the previous quarter. Although the facility is now back in production, the resultant shutdown and the additional expenses of the loss of productivity continue to effect current cash flow. The Company has completed insurance claims for both the fire loss and business interruption, and expects to file both those claims by the middle of June. Should the claims be approved, the receipt of insurance proceeds shall not only help to relieve cash flow pressures, but favorably impact the statement of operations during the period in which the proceeds are received.

As debt related to acquisition of both Act II and LEI matures in August 1992, the Company is continuing to seek a lender to provide a corporate financing package. Management is working with two separate financing sources to accomplish this effort. Although there can be no assurance that the Company will be successful, Management remains confident that it can offer an attractive opportunity to one of the prospective lenders. In addition to the payment of maturing debt, the company will realize, due to more favorable interest rates, an improvement in financing cost for the remaining debt.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) The Company held its Annual Meeting of Shareholders on December 19, 1991. The sole order of business was the routine election of directors.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

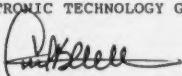
- (a) Exhibits - None
(b) Reports of Form 8-K - None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ELECTRONIC TECHNOLOGY GROUP, INC.

Date: June 10, 1992

By: 

Curt B. Westrom
Chief Financial Officer,
Secretary and Treasurer

Signing on behalf of the
Registrant and as principal
financial officer.